Supreme Court U.S.
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No. 02-774

In the Supreme Court of the United States

DOUGLAS KARLSEN, TURBINE DESIGN, INC., PAUL ARRAY AND HORIZON UNLIMITED, INC.,
Petitioners,

v.

RICHARD F. SILVA, SILVA ENTERPRISES, LTD. AND SNA, INC.,
Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

TERRY ELIZABETH SILVA
KENNETH J. BENTON
Counsel of Record
1429 WALNUT STREET
SUITE 900
PHILADELPHIA, PA 19102
(215) 564-0202

Counsel for Respondents, Richard F. Silva, SNA, Inc. and Silva Enterprises, Ltd.

BECKER GALLAGHER LEGAL PUBLISHING, INC.,
CINCINNATI, OHIO 800-890-5001

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CORPORATE DISCLOSURE STATEMENT

Pursuant to 29.6 of Rules of the United States of the Supreme Court, corporate respondents SNA, Inc. and Silva Enterprises, Ltd., disclose that they do not have parent companies. No publicly held company owns ten (10%) percent or more of the corporation's stock.[1]

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[1] Petitioners failed to list Silva Enterprises, Ltd. ("SEL") as one of the Respondents in the Petition for Writ of Certiorari, even though SEL is a party in the district court and Third Circuit, and appears in the caption of the Third Circuit's decision, *see* Appendix A to Petition for Certiorari, and the caption of the district court's decision. *See* Appendix B to Petition for Certiorari. Petitioners also failed to include a corporate disclosure statement, as Supreme Court Rule 29.6 requires.

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Counter-Statement of the Case

Respondents Richard F. Silva, SNA, Inc. and Silva Enterprises, Ltd. ("Respondents") sell an amphibious kit plane known as "Seawind," for which Respondents have obtained a common law and federally registered trademark. *See SNA, Inc. v. Karlsen*, 51 F. Supp. 2d 542 (E.D. Pa. 1999)("SNA I"). This litigation involves two (2) consolidated cases arising from Petitioners' tortious conduct against Respondents and trademark infringement of "Seawind."

Respondents first filed an action against Petitioners Douglas Karlsen ("Karlsen") and his company, Turbine Design, Inc. ("TDI") on June 2, 1997, in the United States District Court for the Eastern District of Pennsylvania, No. 97-CV-3793, alleging infringement of the "Seawind" trademark, breach of contract, misappropriation of trade secrets and proprietary interests, defamation and trade disparagement — all with respect to the "Seawind" amphibious kit plane and Karlsen/TDI's construction of such kits. Respondents later filed an action against Petitioners Paul Array ("Array") and his company, Horizon Unlimited ("Horizon") on November 21, 1997. The complaints requested injunctive relief, compensatory and punitive damages, and attorneys' fees for breach of contract, defamation, trademark infringement, conspiracy to commit and commission of unfair trade practices and tortious interference with prospective customers — all with respect to the "Seawind" kit plane Array purchased. The district court later consolidated the actions.

After conducting a preliminary injunction hearing in May 1999, the district court granted Respondents part of the injunctive relief they sought by enjoining Petitioners from infringing Respondents' "Seawind" trademark by using the internet domain name "Seawind.net." *See SNA I.* On June 1, 1999, the district court conducted a three (3) day bench trial on the permanent injunction. On June 9, 1999, the district court entered its final judgment and published its findings of fact and conclusions of law. *See SNA, Inc. v. Array,* 51 F.Supp. 2d 554 (E.D.Pa. 1999) ("SNA II").

The district court found that Petitioners infringed Respondents' "Seawind" trademark, permanently enjoined Petitioners' use of "seawind.net," and permanently enjoined Petitioners' practice of "metatagging" their web sites with Respondents' "Seawind" trademark.[2] Of particular relevance to the present petition, the district court found as a factual matter that Petitioners acted in bad faith in metatagging their web sites with the intent of confusing Respondents' existing and future customers. *See SNA*

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[2] "Metatagging" refers to the practice of placing key words in the HTML coding of internet web pages that is not visible to a person browsing the web page but which is scanned by internet search engines like Google (www.google.com). *See SNA II,* 51 F. Supp. 2d at 562-63; *see generally Brookfield Comm., Inc. v. West Coast Enter. Corp.,* 174 F.3d 1036 (9th Cir. 1999). By placing the name "seawind" in the metatags of their web sites, Petitioners increased the likelihood that a person searching with an internet search engine like Google or Yahoo to obtain information about "seawind" would yield search results that first include links to Petitioners', not respondents', web site.

II, 51 F. Supp. 2d at 563 ("Here, based on the repetitious usage and the evidence of defendants' general intent to harm plaintiffs, the court cannot find that this use is a similar good faith effort to index the content of the website; *instead, it is a bad faith effort to confuse internet users that is likely to succeed.* Defendants' metatagging will thus be enjoined.")(Emphasis added). The district court also found other instances of Petitioners' bad faith conduct. *See id* at 561 ("The use of the stolen parts in the copying scheme caused plaintiffs actual damages of approximately $5,500 [the worth of the stolen Seawind parts] for which they are entitled to compensation. Considerations of punishment and deterrence for the outrageous way defendants set out to injure plaintiffs toward whom they harbor such malice justifies punitive damages against Karlsen and Turbine Design in the sum of $10,000.")(emphasis added); *see also id* at 551 (quoting letter from Array to Karlsen in which Array stated his intentions with respect to Respondents Richard F. Silva and SNA: 'I need to fry this bastard and I think this will do it. Maybe we can put him out of business and go into the kit business.')

After the district court entered judgment in Respondents' favor on claims under the Trademark Act of 1946 (Lanham Act), 60 Stat. 427, as amended, 15 U.S.C. § 1051 et seq., and for breach of contract, Respondents filed a motion for attorneys' fees pursuant to Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), and pursuant to an attorneys' fees contract provision. After extensive briefing, the district court awarded attorneys' fees in the amount of $213,341.50 and costs in the amount of $81,792.39. *SNA, Inc. v. Array*, 173 F. Supp. 2d 347 (E.D. Pa. 2001) ("*SNA III*"). The district

court held that Lanham Act attorneys' fees are appropriate when there is "culpable conduct, such as bad fath, fraud, malice, or knowing infringement." *Id.* at 353 (quoting *Ferrero U.S.A. v. Ozak Trading, Inc.*, 952 F.2d 44, 47 (3d Cir. 1991)). The district court found this requirement satisfied based on its earlier factual finding in the bench trial that Petitioners, in violating the Lanham Act, engaged in a "bad faith effort to confuse internet users." *SNA II*, 51 F. Supp. 2d at 563. The district court rejected Petitioners' argument that an award of damages was a prerequisite to attorneys' fees under Section 35 of the Lanham Act because a recent Third Circuit case, *Securacomm Consulting, Inc. v. Securacom*, Inc., 224 F. 3d 273 (3d Cir. 2000), awarded Lanham Act attorneys' fees because of a bad faith violation of the Lanham Act, even though a prior panel vacated an award of damages. *See SNA III*, 173 F. Supp. 2d at 350.

The Court of Appeals for the Third Circuit affirmed. *Silva v. Karlsen*, 2002 U.S. App. LEXIS 17317 (3d Cir. August 19, 2002)("SNA IV")(Appendix A to the Petition for a Writ of Certiorari). The Court of Appeals agreed with the district court that its decision in *Securacomm* was controlling. This Petition followed.

Reasons For Denying The Writ

The petition for certiorari should be denied. Petitioners' sole reason for seeking certiorari is an alleged circuit conflict between the Third Circuit's decision below and decisions from the Sixth, Tenth and Federal Circuits. However, a careful reading of these cases demonstrate no conflict exists. The decision below, relying on circuit precedent and the Lanham

Act's legislative history, found that bad faith alone is a sufficient basis for awarding Lanham Act attorneys' fees, even in the absence of an award of actual damages. None of the cases upon which Petitioners rely conflicts with this principle. Indeed, all three (3) cases cite the legislative history of the Lanham Act stating that bad faith conduct alone is a basis for awarding attorneys' fees. Furthermore, two subsequent decisions from the Tenth Circuit explicitly state that an award of damages is *not* a prerequisite for Lanham Act attorneys' fees. In the absence of a circuit conflict, there is no basis for granting certiorari. See Supreme Court Rule 10.

Certiorari should also be denied because the decision below was correct as a matter of law. The legislative history describes exceptional cases under the Lanham Act warranting attorneys' fees as ones that involve bad faith, intentional, malicious, or willful conduct. Damages are not mentioned as a prerequisite to fees. Thus, the decision below correctly interpreted the Lanham Act.

I. The Decision Below Does Not Present a Circuit Conflict.

The legal issue on which Petitioners allege a circuit conflict is whether a prevailing party in a Lanham Act case who has established a bad faith infringement but who received no award of damages are entitled to attorneys' fees under Section 35(a), 15 U.S.C. § 1117(a). The Third Circuit held that a bad faith violation of the Lanham Act alone justifies an award of attorneys' fees. See Exhibit A to Petition for Certiorari. Petitioners cite cases from three (3) other circuits

allegedly in conflict with this decision. *See VIP Foods, Inc. v. Vulcan Pet, Inc.*, 675 F. 2d 1106 (10th Cir. 1982); *Hindu Incense v. Meadows*, 692 F. 2d 1048, 1052 (6th Cir. 1982); *Bandag, Inc. v. Al Bolser's Tire Stores*, 750 F. 2d 903, 921 (Fed. Cir. 1984). A closer look belies this notion.

In *Bandag,* the Federal Circuit reversed the award of attorneys' fees *not* because of the absence of damages, but because there was no evidence of the factors that Congress identified in the legislative history, such as bad faith, to warrant attorneys' fees. *See id* at 921. ("Being unable to find in the record evidence of the factors delineated by Congress as justifying the classification of the case as 'exceptional,' we conclude that the award of attorney's fees in relation to trademark infringement by Bolser was an abuse of discretion.") This Federal Circuit ruling is consistent with the Third Circuit's opinion that bad faith alone justifies an award of Lanham Act attorneys' fees.

Similarly, the Sixth Circuit in *Hindu* found no evidence that an infringement was malicious, fraudulent, deliberate or willful (i.e., done in bad faith). Lacking evidence of any of these factors, which the legislative history of Section 35(a) identified as dispositive of a party's entitlement to attorneys' fees, the Sixth Circuit concluded that attorneys' fees were not warranted. *See id.* at 1052. ("We agree with the district court that the present case does not meet the requisite showing of intentional infringement for malicious, fraudulent, deliberate or willful purposes within the meaning of § 1117.") This holding is also harmonious with the decision below.

Finally, in *VIP Foods,* the Tenth Circuit also concluded that in the absence of bad faith, Lanham Act attorneys' fees were not warranted. *See VIP,* 675 F.2d at 1107 ["Furthermore, the Court found that defendant had no intent to deceive or confuse the public or to willfully infringe upon plaintiff's trademark" (citations omitted)]. Like the Sixth and Federal Circuit, the Tenth Circuit relied on the legislative history, which describes an "exceptional case" warranting attorney's fees as one "in which the trademark infringement is 'malicious,' 'fraudulent,' 'deliberate,' or 'willful.'" *Id.* Since these factors were not present, attorneys' fees were not warranted. However, this is *not* tantamount to stating that fees cannot be awarded when there are no damages. Indeed, subsequent decisions from the Tenth Circuit explicitly hold, as the Third Circuit held, that damages are *not* a prerequisite to Lanham Act attorneys' fees where a trademark is infringed in bad faith. *See Bishop v. Equinox Int'l Corp.,* 154 F.3d 1220, 1224 (10th Cir. 1998)("Although an absence of actual damages is a factor in determining whether a case is exceptional, [citing *VIP Foods* at 1107], *such absence does not preclude a fee award."*)(emphasis added)(citing *Post Office v. Portec, Inc.,* 913 F.2d 802, 812 (10th Cir.1990)(willful, intentional violation of a Lanham Act satisfies requirement of awarding attorneys' fees in "exceptional cases."), *vacated on other grounds,* 499 U.S. 915 (1991).

These later cases are devastating to Petitioners' argument that the Tenth Circuit is in conflict with the Third Circuit, as they clearly reveal circuit *agreement* on this issue rather than a *split.* Further, *Portec* cited the Sixth Circuit's decision in *Hindu* to support its result. *Portec* is consistent with the Third Circuit's

decision below and would not have cited *Hindu* if indeed it conflicted with its reasoning, as Petitioners erroneously allege.

Thus, a close reading of the cases Petitioners cite demonstrates the cases do *not* stand for the proposition that damages are a prerequisite to Lanham Act attorneys' fees, but rather that only a showing of willful, deliberate, fraudulent, malicious or other type of bad faith conduct — the factors identified in the legislative history — is necessary. See S. Rep. No. 93-1400, 93d Cong., 2d Sess. (reprinted in 1974 U.S. Code Cong. & Ad. News 7132, 7133)(discussing exceptional case under Lanham Act that warrant attorneys' fees as one involving infringement that is malicious, fraudulent, willful, or deliberate). These decisions are harmonious with the Court of Appeals' decision below. *See* Appendix A at 5a-6a.

Moreover, every other circuit to address this issue is in accord with the Third Circuit's decision below that bad faith alone is a sufficient factor to establish entitlement to Lanham Act attorneys' fees. *See Gracie v. Gracie,* 217 F.3d 1060, 1071 (9th Cir. 2000); *S Industries, Inc. v. Centra 2000, Inc.,* 249 F.3d 625, 627 (7th Cir. 2001); *Pebble Beach Company v. Tour 18 I, Ltd.,* 155 F.3d 526, 556 (5th Cir.1998)("An award of attorneys' fees under Section 1117(a) generally 'requires a showing of a high degree of culpability on the part of the infringer, for example, bad faith or fraud.'"); *Texas Pig Stands, Inc. v. Hardrock Café Int'l,* 951 F.2d 684, 697 n. 23 (5th Cir. 1992)("While the lack of such damage does not prohibit a trial court from finding the case to be "exceptional," such a finding is an important circumstance to

consider.") (citing *Post Office v. Portec, Inc.,* 913 F.2d 802, 812 (10th Cir. 1990), *vacated on other grounds,* 499 U.S. 915 (1991); *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Restaurant,* 771 F.2d 521, 526 (D.C. Cir. 1985)("Something less than 'bad faith,' we believe suffices to mark a case as 'exceptional.'"); *Canopco, Inc. v. Campbell Soup Co.,* 95 F.3d 187, 194-95 (2nd Cir. 1996)(attorneys' fees can be awarded when bad faith is demonstrated).

In the absence of a circuit conflict, certiorari should not be granted. *See* Supreme Court Rule 10; *Braxton v. U.S.,* 500 U.S. 344 (1991)(principal function of certiorari jurisdiction is to resolve circuit conflicts).

II. The Decision Below was Correct.

Even though Petitioners essentially seek error correction from this Court, and even though error correction is not the function of this Court's certiorari jurisdiction, there would be no basis for review here in any event because these issues were correctly decided by the court below. The legislative history of Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), makes it clear that an exceptional case warranting attorneys' fees involves bad faith and willful conduct, but does not necessarily involve damages:

> [Attorney's fees] should be available in exceptional cases, i.e., in infringement cases where the acts of infringement can be characterized as `malicious,' `fraudulent,' `deliberate,' or `willful,'"

S. Rep. No. 93-1400, at 2 (1974), reprinted in 1974 U.S.C.C.A.N. 7132, 7133. See also S. Rep. No. 93-1400, at 6 (1974), reprinted in 1974 U.S.C.C.A.N. 7132, 7137 ("[The attorney's fee provision] provides that attorneys' fees may be awarded to the prevailing party in actions under the federal trademark laws, when equitable considerations justify such awards. It would make a trademark owner's remedy complete in enforcing his mark against willful infringers, and would give defendants a remedy against unfounded suits.") The legislative history's silence on damages, express allowance of injunctive relief, and emphasis on bad faith and willful conduct confirms the wisdom of the decision below and is fatal to Petitioners' argument.

Finally, as a matter of logic and policy, damages should not be a prerequisite to attorneys' fees when a trademark is infringed in bad faith. All willful trademark infringement must be deterred, not simply those that cause damages but also those which are remedied by injunction. *Cf. Bishop,* 154 F.3d at 1220 (collecting cases for proposition that award of accounting of profits is proper for Lanham Act violation, in the absence of damages, when infringement was willful and in bad faith, for purposes of deterring willful infringement).

CONCLUSION

For the foregoing reasons, Respondents respectfully request that this Court deny the Petition for Writ of Certiorari.

Respectfully submitted,

Terry Elizabeth Silva
Kenneth J. Benton
(*Counsel of Record*)
1429 Walnut Street, Suite 900
Philadelphia, PA 19102
(215) 564-0202

Counsel for Respondents
Richard F. Silva, Silva Enterprises, Ltd. and SNA, Inc.